

Message Text

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ORIGIN TRSE-00

INFO OCT-01 EUR-12 ISO-00 EB-07 L-03 SS-15 NSC-05 H-01
COME-00 OMB-01 SP-02 SEC-01 CIAE-00 INR-07 NSAE-00
SSO-00 NSCE-00 INRE-00 /055 R

DRAFTED BY TREAS:JGMURPHY
APPROVED BY EUR/EE/NGANDREWS
TREAS:RMUNK
TREAS:DWOLKOW
TREAS:MSEARING
C:JMONTGOMERY
L:FKWIATEK
EB:RRYAN
L:MICKEY (INFO)
S/S:AWOTTO
----- 118518 /60

O 140202Z DEC 76 ZFF4
FM SECSTATE WASHDC
TO AMEMBASSY BUDAPEST NIACT IMMEDIATE

C O N F I D E N T I A L STATE 302703

E.O. 11652: GDS

TAGS: EFIN, HU

SUBJECT: WORLD WAR I FLOUR DEBT

REF: BUDAPEST 4145

1. WE HOPE THAT THE PROCEDURES DISCUSSED AT DECEMBER 10 MEETING WITH AKAR FOR GOH PAYMENT OF ARREARAGES UNDER 1924 AND 1932 AGREEMENTS CAN BE REALIZED. TO EXPEDITE SETTLEMENT, DEPARTMENT HAS PREPARED A DRAFT USG NOTE COVERING THE POINTS SUGGESTED BY THE EMBASSY AND OTHER RELEVANT MATTERS. WE HAVE ALSO OUTLINED THE ELEMENTS OF THE NOTE WE WILL REQUIRE FROM THE GOH IN RESPONSE TO OUR NOTE.

2. FOLLOWING ARE THE MAIN POINTS OF USG NOTE:

A. THE USG WELCOMES THE PROGRESS WHICH HAS BEEN MADE
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SINCE DISCUSSIONS WERE RESUMED NOVEMBER 4 ON THE OBLIGA-

TIONS OF THE GOH ARISING FROM THE AGREEMENTS OF APRIL 25, 1924 AND MAY 27, 1932.

B. AS A RESULT OF THOSE DISCUSSIONS, THE GOH IN FULL PAYMENT OF ALL ARREARAGES OF PRINCIPAL AND INTEREST ARISING FROM THE AGREEMENTS OF 1924 AND 1932, WILL DEPOSIT ON DECEMBER 15, 1976, THE AMOUNT OF \$4,327,271.44 TO THE GENERAL FUND ACCOUNT OF THE UNITED STATES TREASURY

AT THE FEDERAL RESERVE BANK OF NEW YORK, OR WILL SIGN AND DELIVER ON DECEMBER 15, 1976, THE NOTE REFERRED TO IN PARAGRAPH 4 HEREOF, AND WILL THEN MAKE CASH PAYMENT AS PROVIDED IN THE NOTE. THE AMOUNT REPRESENTS \$56,235.00 OF PRINCIPAL AND \$33,185.06 OF INTEREST DUE DECEMBER 15, 1976 TOGETHER WITH \$1,300,457.75 OF PAST DUE PRINCIPAL AND \$2,937,393.63 OF PAST DUE INTEREST;

C. UPON NOTICE FROM THE FEDERAL RESERVE BANK OF NEW YORK THAT \$4,327,271.44 HAS BEEN DEPOSITED TO THE ACCOUNT OF THE U.S. TREASURY, THE USG WILL RETURN TO THE GOH EMBASSY IN WASHINGTON, D.C. THE GOH BONDS MATURING ON OR PRIOR TO DECEMBER 15, 1976, PURSUANT TO THE AGREEMENTS OF 1924 AND 1932.

D. WITHIN 5 DAYS AFTER RECEIPT OF NOTICE OF THE ABOVE DEPOSIT WITH THE FEDERAL RESERVE BANK, THE DEPARTMENT OF THE TREASURY WILL ISSUE PUBLIC NOTIFICATION THAT THE RESTRICTIONS OF THE JOHNSON ACT (US PUBLIC LAW 80-772) NO LONGER APPLY TO HUNGARY. THE SECURITIES AND EXCHANGE COMMISSION (SEC), UPON OFFICIAL NOTIFICATION BY TREASURY THAT THE GOH HAS PAID ALL CURRENT ARREARAGES, WILL PUBLISH A NOTICE RESCINDING ITS RELEASE NUMBER 10610 DATED JANUARY 22, 1974. TREASURY WILL SO INFORM THE SEC WITHIN 3 DAYS AFTER RECEIPT OF NOTICE OF THE ABOVE DEPOSIT. SEC RECISSION, LIKE ORIGINAL RELEASE 10610 WILL REFER ONLY TO JOHNSON ACT RESTRICTIONS PERTAINING TO TRADING IN GOH SECURITIES, AS OTHER JOHNSON ACT RESTRICTIONS-E.G. ON BANK LOANS, LIE BEYOND SEC JURISDICTION. TREASURY RELEASE, BY CONTRAST, WILL REFER TO LIFTING OF RESTRICTIONS GENERALLY, THEREBY COVERING LOANS AS WELL AS SECURITIES.

E. JOHNSON ACT RESTRICTIONS WILL CONTINUE TO BE INAPPLICABLE TO THE GOH SO LONG AS IT IS NOT IN DEFAULT ON PAYMENTS OF OBLIGATIONS DUE TO THE USG; AND
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F. THE SCHEDULE FOR GOH PAYMENTS DUE THROUGH 12/15/1985 IS ANNEXED TO THIS NOTE AS ANNEX A.

3. THE HUNGARIAN NOTE IN RESPONSE MUST CONTAIN THE FOLLOWING ELEMENTS: A. ACKNOWLEDGEMENT OF AND AGREEMENT TO THE CONTENTS OF THE USG NOTE AND ITS ANNEX; AND B. A STATEMENT THAT THE GOH WILL DEPOSIT IN THE GENERAL FUND ACCOUNT OF THE UNITED STATES TREASURY AT THE FEDERAL RE-

SERVE BANK OF NEW YORK THE AMOUNT OF \$4, 327, 271.44 ON DECEMBER 15, 1976, OR WILL SIGN AND DELIVER ON DECEMBER 15, 1976 NOTE DESCRIBED IN PARAGRAPH 4 BELOW AND WILL THEN MAKE CASH PAYMENT AS PROVIDED IN THE NOTE.

4. IN REFERENCE TO INQUIRY RAISED BY EMBASSY IN PARA 8B OF REFTEL: TECHNICALLY, ARTICLE 3 OF 1924 AGREEMENT STATES THAT BONDS SHALL CONTINUE TO ACCRUE INTEREST "UNTIL THE PRINCIPAL THEREOF SHALL HAVE BEEN PAID." HOWEVER, GOH REQUEST THAT INTEREST NOT ACCRUE AFTER DECEMBER 15 IF PAYMENT IS INADVERTENTLY DELAYED FOR ONE OR TWO WEEKS APPEARS REASONABLE. IF GOH IS UNABLE TO PAY IN CASH ON DECEMBER 15, IT SHOULD, INSTEAD, SIGN AND DELIVER TO USG ON THAT DATE A NOTE BEARING FOLLOWING TEXT: "THE GOVERNMENT OF THE HUNGARIAN PEOPLE'S REPUBLIC PROMISES TO PAY TO THE GOVERNMENT OF THE UNITED STATES OF AMERICA BY DEPOSITING TO THE GENERAL FUND ACCOUNT OF THE UNITED STATES TREASURY AT THE FEDERAL RESERVE BANK OF NEW YORK NOT LATER THAN DECEMBER 20, 1976, THE SUM OF FOUR MILLION, THREE HUNDRED TWENTY-SEVEN THOUSAND, TWO HUNDRED SEVENTY ONE AND FORTH-FOUR ONE HUNDREDTHS UNITED STATES DOLLARS (US \$4, 327,271.44) AS PAYMENT IN FULL OF ALL OBLIGATIONS OF THE GOVERNMENT OF THE HUNGARIAN PEOPLE'S REPUBLIC TO THE GOVERNMENT OF THE UNITED STATES OF AMERICA DUE AS OF DECEMBER 15, 1976, PURSUANT TO THE AGREEMENTS DATED APRIL 25, 1924 AND MAY 27, 1932." THE NOTE MUST BEAR THE DATE OF DECEMBER 15, 1976. PARA IF GOH UNABLE TO EFFECT PAYMENT BY DECEMBER 20, EMBASSY MAY AT ITS DISCRETION, EXTEND MATURITY DATE OF NOTE TO DECEMBER 30, 1976. IF CASH PAYMENT OF THE NOTE IS MADE ON OR PRIOR TO DECEMBER 20 (OR 30 IF AN EXTENSION IS GRANTED), PAYMENT OF THE BONDS FOR RECORDKEEPING PURPOSES WILL BE SAID TO HAVE BEEN AS OF DECEMBER 15. IF THE NOTE

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IS NOT PAID BY DECEMBER 20 (OR 30 IF AN EXTENSION IS GRANTED), ADDITIONAL INTEREST WILL ACCURE, STARTING ON DECEMBER 16. CASH PAYMENT BY DECEMBER 30 IS NECESSARY FOR PAYMENT TO BE RECORDED IN TREASURY'S DEC. 31 DEBT STATISTICS.

5. WITH RESPECT TO POINT RAISED IN PARA 5 OF REFTEL RE: INTEREST RATE FOR YEARS 1943-1976 ON THE ANNUITIES ISSUED PURSUANT TO 1932 AGREEMENT, REFTEL IS UNCLEAR AS TO WHETHER AKAR RAISED ARGUMENT THAT INTEREST RATE SHOULD REVERT TO 3 1/2 . EMBASSY IS INSTRUCTED TO NOT, REPEAT, NOT, DISCUSS ISSUE UNLESS IT IS FORMALLY RAISED BY GOH. SHOULD GOH RAISE ISSUE, EMBASSY SHOULD MAKE STRONG ARGUMENT THAT LOGICAL INTERPRETATION OF 1932 AGREEMENT IS THAT INTEREST ACCRUES ON ANNUITIES AT 4 UNTIL PAID, I.E.

UNTIL DECEMBER 15, 1976. SHOULD IT APPEAR THAT (A) DIS-
 AGREEMENT ON THE ISSUE THREATENS SUCCESSFUL SETTLEMENT AND,
 (B) THERE ARE NO OTHER POINTS OF DISAGREEMENT, EMBASSY IS
 AUTHORIZED TO AGREE TO CHARGING 3 1/2 RATHER THAN 4 ON
 THE \$69,342.75 PRINCIPAL AMOUNT OF THE ANNUITIES FOR THE

PERIOD JULY 1, 1943 TO DECEMBER 15, 1976. IN THAT CASE,
 NOTIFY DEPARTMENT ASAP AND TREASURY WILL COMPUTE NEW PAY-
 MENT DUE FIGURE.

6. AS PART OF THE SETTLEMENT OF OUTSTANDING FINANCIAL
 QUESTIONS, EMBASSY SHOULD REQUEST THE GOH TO GIVE US
 WRITTEN STATEMENT THAT THE CONFISCATED FORINT ACCOUNTS
 HAVE BEEN REINSTATED AS OF DECEMBER 15 AND THAT THE GOH
 WILL INFORM ALL OWNERS OF SUCH ACCOUNTS OF REINSTATEMENT
 THEREOF. THIS WRITTEN ASSURANCE, FORTIFYING THE INFORMAL
 VERBAL AGREEMENT REACHED ON NOV. 4, WOULD BE HANDLED
 SEPARATELY FROM THE FLOUR DEBT SETTLEMENT. THE WRITTEN
 ASSURANCE WOULD TAKE THE FORM OF A MFA NOTE, OR PERHAPS
 MORE SIMPLY, BY LETTER FROM THE MFA TO THE EMBASSY.

7 ANNEX A (THE AMOUNTS IN SECOND LEVEL OF COLUMNS COR-
 RESPONDS WITH DATES GIVEN UNDER HEADING DATE DUE).

GOVERNMENT OF HUNGARY --- WORLD WAR I DEBT --- SCHEDULE
 OF PAYMENTS BY AGREEMENT.
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DATE DUE TOTAL DUE 4/25/24

6/15/77	\$10,627.25	\$10,383.97
12/15/77	68,965.66	67,441.03
6/15/78	9,610.16	9,389.21
12/15/78	69,982.94	68,440.79
6/15/79	8,557.43	8,359.53
12/15/79	71,969.47	70,405.47
6/15/80	7,472.06	7,297.50
12/15/80	72,887.08	71,297.50
6/15/81	6,309.96	6,160.58
12/15/81	73,824.64	72,194.42
6/15/82	5,132.30	5,008.74
12/15/82	74,730.50	73,036.26
6/15/83	3,918.16	3,822.00
12/15/83	76,614.69	74,843.00
6/15/84	2,657.11	2,590.00
12/15/84	77,442.13	75,590.00
6/15/85	1,344.68	1,308.90
12/15/85	78,402.07	76,316.10

BOND 63 BOND 64 BOND 65

\$ 82.46	\$ 78.36	\$ 82.46
497.92	528.79	497.92
75.22	70.51	75.22
505.63	530.89	505.63
67.71	62.48	67.71
513.09	537.82	513.09
60.11	54.34	60.11
525.12	539.34	525.12
51.83	45.72	51.83
542.12	545.98	542.12
43.28	37.00	43.28
573.52	547.20	573.52
34.03	28.10	34.03
609.22	553.25	609.22
24.06	18.99	24.06
649.07	553.99	649.07
13.09	9.60	13.09

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763.16	559.65	763.16	KISSINGER
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Message Attributes

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Disposition Approved on Date:
Disposition Authority: MartinML
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Disposition Date: 28 MAY 2004
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